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The impact of UN and US economic sanctions on GDP growth☆

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ABSTRACT

In this paper, we empirically assess how economic sanctions imposed by the United Nations and the United States affect the target states' GDP growth. Our sample includes 160 countries of which 67 experienced economic sanctions over the period 1976–2012. We find, first, that UN sanctions have a statistically and economically significant influence on the target state's economic growth. On average, the imposition of UN sanctions decreases the target state's annual real per capita GDP growth rate by more than 2 percentage points (pp). These adverse effects last for a period of 10 years and lead to an aggregate decline in the target country's GDP per capita of 25.5%. Comprehensive UN economic sanctions, that is, embargoes affecting nearly all economic activity, trigger a reduction in GDP growth by more than 5 pp. Second, the effect of US sanctions is much smaller and less distinct. The imposition of US sanctions decreases the target state's GDP growth by 0.75–1 pp. This detrimental impact on growth persists for seven years and accounts for an aggregate decline in GDP of 13.4%.

1. Introduction

Economic sanctions have become one of the most important tools of statecraft in international politics (Cortright and Lopez, 2000). These measures are designed to change certain of the target nation's policies by inflicting economic damage. They are viewed as a non-violent, more humane alternative to military intervention. However, the imposition of economic sanctions is often harshly criticized based on the unpleasant reality that even though these measures are directed against governments, more often than not, it is the target state's public that bears the costs. This result can be particularly unfair when the regime against which sanctions are directed lacks democratic legitimation.

There is a huge and vibrant literature on the adverse effects of economic sanctions on target states' humanitarian situation. Sanctions are argued to have devastating consequences for the civilian population as they can negatively affect the availability of food and clean water (Cortright and Lopez, 2000; Weiss et al., 1997) and access to medicine and health-care services (e.g., Garfield, 2002; Gibbons and Garfield, 1999), as well as have a detrimental impact on life expectancy and infant mortality (e.g., Ali Mohamed and Shah, 2000; Daponte and Garfield, 2000). Most of this research is qualitative, however, and based on single-country case studies. Quantitative assessments of sanctions typically focus on how they impact human rights (e.g., Peksen, 2009; Wood, 2008), political stability within the target state (Allen, 2008; Marinov, 2005), or level of democracy (Peksen and Drury, 2010), as well as their success in

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achieving the desired objectives (e.g., Hufbauer et al., 2009; Drury, 1998; Dashti-Gibson et al., 1997).[1] The findings are dispiriting. For example, Peksen (2009) reports that economic sanctions worsen the targeted government's respect for human rights; Peksen and Drury (2010) find that economic sanctions have a detrimental impact on the level of democracy.[2] Moreover, economic sanctions fail to achieve their aims in 65–95% of the cases in which they are imposed (e.g., Hufbauer et al., 2009; Pape, 1997, 1998).

Empirical research on the *economic* consequences of economic sanctions is scarce. Evenett (2002) estimates the impact of eight industrialized countries' sanctions against the South African Apartheid regime on these countries' bilateral trade relations with South Africa between 1978 and 1999. His findings suggest that the US Anti-Apartheid Act had the strongest influence on South African exports. Hufbauer et al. (2009) rely on a large sample of bi- and multilateral economic sanctions and estimate gravity models. They find that the imposition of economic sanctions significantly reduces the volume of bilateral trade between the imposing and the target state.

This paper is the first econometric assessment of the impact economic sanctions have on the target's overall economic development.[3] More precisely, we analyze the effect economic sanctions have on the target countries' GDP growth rate, focusing on (i) multilateral sanctions imposed by the United Nations and (ii) unilateral sanctions imposed by the United States. The UN Security Council (UNSC) can call on its member states to partially or completely interrupt economic relations with a state that threatens or breaches international peace and security.[4] First employed in 1965 against Rhodesia, the use of this measure has become increasingly popular during the past two decades (see also Fig. 1a in Section 3.2). All UN member states are obliged to adopt the sanction measures determined by the UNSC, which is why such sanctions are expected to be particularly effective. With regard to the United States, no other country in the world has imposed economic sanctions more often (Hufbauer, 1998; Hufbauer et al., 2009). Although unilateral, the importance of the United States to the global economy may make its sanctions an influential policy instrument.

We compiled a unique dataset comprised of UN and US sanction episodes between 1976 and 2012. Our results suggest, first, that sanctions imposed by the United Nations have a significant influence on economic growth. On average, the imposition of UN sanctions decreases the target state's annual real per capita GDP growth rate by more than 2 percentage points (pp). An investigation of the dynamics of the sanction effects reveals that the detrimental influence decreases over time and becomes insignificant after 10 years; over this period, the total decline in the target country's per capita GDP amounts to 25.5%. Differentiating between categories of economic sanctions, we find that comprehensive UN economic sanctions – that is, embargoes on nearly all economic activity between UN member states and the sanctioned country – exert the strongest influence; they trigger a reduction in real GDP growth of more than 5 pp. Second, the adverse effect of US sanctions on real GDP growth is much smaller and of less duration than that of UN sanctions. The imposition of US sanctions decreases the target state's GDP growth over a period of seven years and, on average, by 0.75–1 pp, with a cumulated decrease in GDP per capita of 13.4%. In addition, we find that the detrimental impact of US sanctions varies across the targeted countries. US sanctions appear to have a stronger negative influence on countries that are geographically closer to the United States. Our findings are robust to modifications of the empirical specification that control for potential changes in a country's institutional, political, and social environment. Moreover, when comparing the effect of UN economic sanctions that were actually imposed to those that were blocked by a veto in the UNSC, we find that only the former exert an adverse impact on economic growth, indicating that our results are not driven by omitted factors that coincide with sanction periods. Finally, our findings are not subject to reverse causality, as conditional GDP growth rates do not differ significantly across sanctioned and non-sanctioned countries prior to the imposition of economic sanctions.

The remainder of the paper is organized as follows. Section 2 provides some theoretical arguments for why sanctions may have adverse growth effects in the target countries and outlines the research hypotheses. Section 3 introduces the empirical methodology and the dataset. Section 4 presents the empirical results. Section 5 explores the robustness of our findings. Section 6 concludes.

2. Theoretical considerations and hypotheses

Economic sanctions are coercive measures that fall between mere diplomatic pressure and the extreme of military intervention. According to former UN Secretary-General Kofi Annan, sanctions "represent more than just verbal condemnation and less than the use of armed force."[5] Or, as the former US President Woodrow Wilson put it: "A nation boycotted is a nation that is in sight of surrender. Apply this economic, peaceful, silent, deadly remedy and there will be no need for force" (quoted in Heine-Ellison, 2001: 83). Theoretically, economic sanctions are effective due to their potential to inflict economic damage. Thus, one should expect UN and US economic sanction episodes to have a detrimental impact on the target nation's economic development, and yet there is hardly any empirical assessment of the economic costs incurred by sanctions.

There are several channels through which sanctions may adversely affect the target state's economic performance. The most obvious of these include a slump in exports and imports, the related loss of bargaining power on international markets, and the contraction of international capital flows, that is, withdrawal of foreign direct investment, foreign aid, and financial grants (Hufbauer et al., 2009; Evenett, 2002). However, such adverse effects may occur even when trade embargoes or suspensions of

[1] There are also theoretical public choice and game-theoretical analyses on conditions under which economic sanctions may trigger policy changes. Examples are Kaempfer et al. (2004), Kaempfer and Lowenberg (1988, 1999), and Eaton and Engers (1992).

[2] Oechslin (2014) sets up a theoretical model that explains why targeted regimes tend to respond to sanctions by adopting policies that amplify their harmful effects.

[3] Hufbauer et al. (2009: 211ff) provide rough approximations of the effect of economic sanctions on the target countries' gross national product. However, the authors themselves admit that their assessment is rudimentary. They simply consider the initial reduction in net exports and foreign grants associated with the imposition of economic sanctions, weigh this figure with a "sanction multiplier," which is based on the authors' subjective judgment of the substitution elasticities of domestic demand and international supply of the embargoed goods, and put this measure in relation to the target state's gross national product. However, in Section 2 we illustrate that economic sanctions may affect the target country's GNP/GDP in other ways.

[4] Vreeland and Dreher (2014) provide a comprehensive overview of the political economy of the UNSC.

[5] UN Press Release SG/SM/7360. http://www.un.org/News/Press/docs/2000/20000417.sgsm7360.doc.html (accessed in March 2014).